# The J.M. Smucker Company

## 2018 BARCLAYS GLOBAL CONSUMER STAPLES CONFERENCE








**Tuesday, September 4, 2018**

# Strategy and Business Update

Mark Smucker
President and Chief Executive Officer

# Financial Update

Mark Belgya
Vice Chair and Chief Financial Officer

# Forward-Looking Statements



This presentation contains forward-looking statements, such as projected net sales, operating results, earnings, and cash flows, that are subject to known and unknown risks and uncertainties that could cause actual results to differ materially from any future results, performance, or achievements expressed or implied by those forward-looking statements. Users should understand that the risks, uncertainties, factors, and assumptions listed and discussed in this presentation could affect the future results of the Company and could cause actual results to differ materially from those expressed in the forward-looking statements.

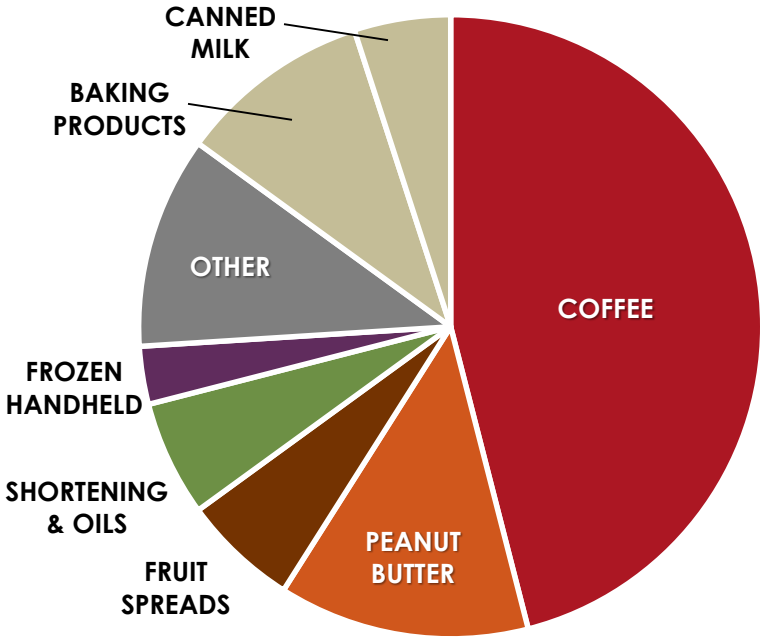
Users are cautioned not to unduly rely on such forward-looking statements, which speak only as of the date made, when evaluating the information presented in this presentation. The Company does not undertake any obligation to update or revise these forward-looking statements to reflect new events or circumstances.

# CONSUMER-CENTRIC
# CORPORATE STRATEGY

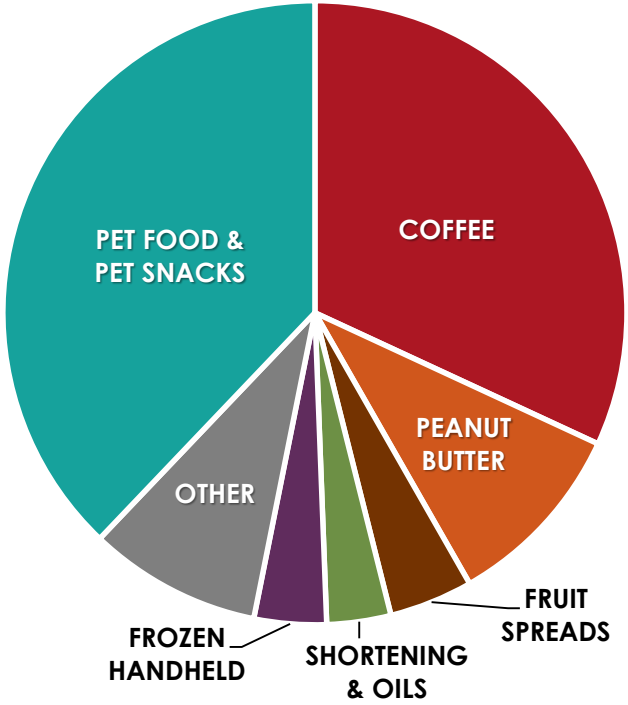


# Transforming Our Portfolio

## FY14 NET SALES

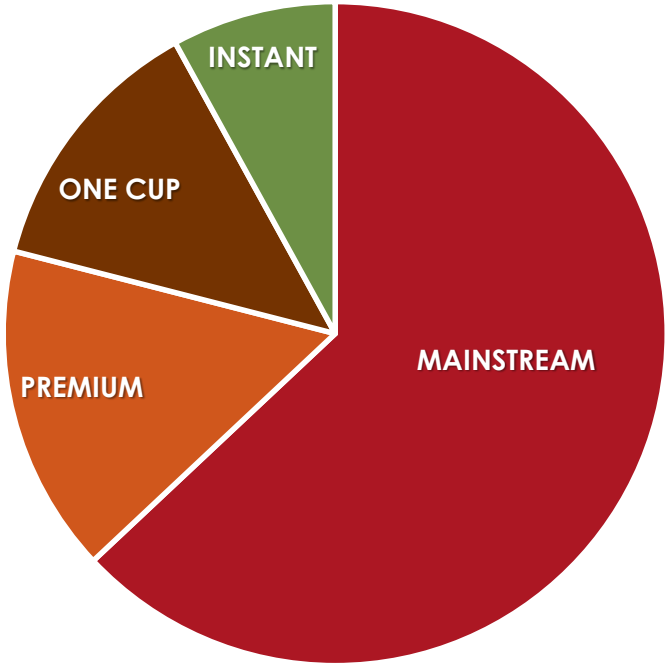



## FY19 PROFORMA NET SALES

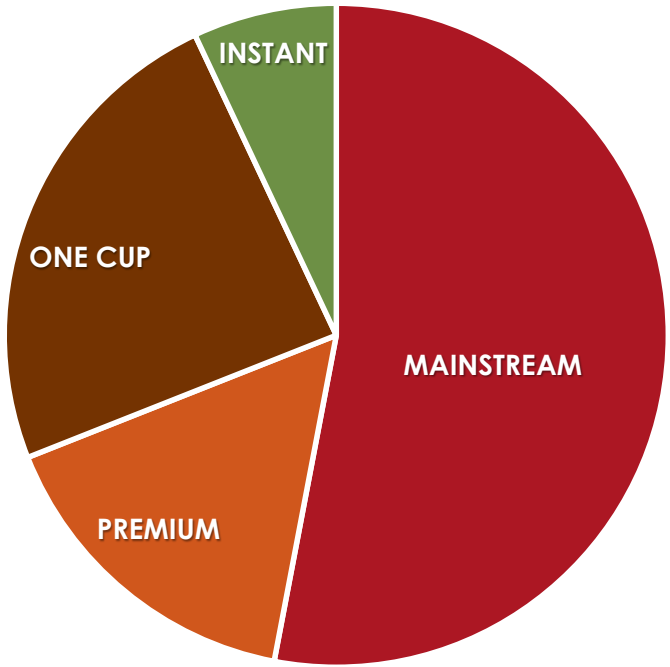


# Improving Our Coffee Category Position

## FY14 NET SALES




## FY19E NET SALES



# Balanced Portfolio of Brands

## ICONIC, LEADING BRANDS

#1 IN FRUIT SPREADS

SMUCKER'S

#1 IN NUT BUTTERS

JIF

#1 IN COFFEE

Folgers

#1 IN PET SNACKS

LOVED SINCE 1908
MILK-BONE

## HIGH-GROWTH, ON-TREND BRANDS

RACHAEL RAY NUTRISH

CAFÉ BUSTELO

SMUCKER'S Uncrustables

NATURE'S RECIPE
EVERY INGREDIENT COUNTS

*Source: Smucker Internal Multi-Outlet Share Report 52 weeks ended August 12, 2018.*

# High-Growth Brands Fueling Success

## HIGH-GROWTH, ON-TREND BRANDS




**APPROXIMATELY**

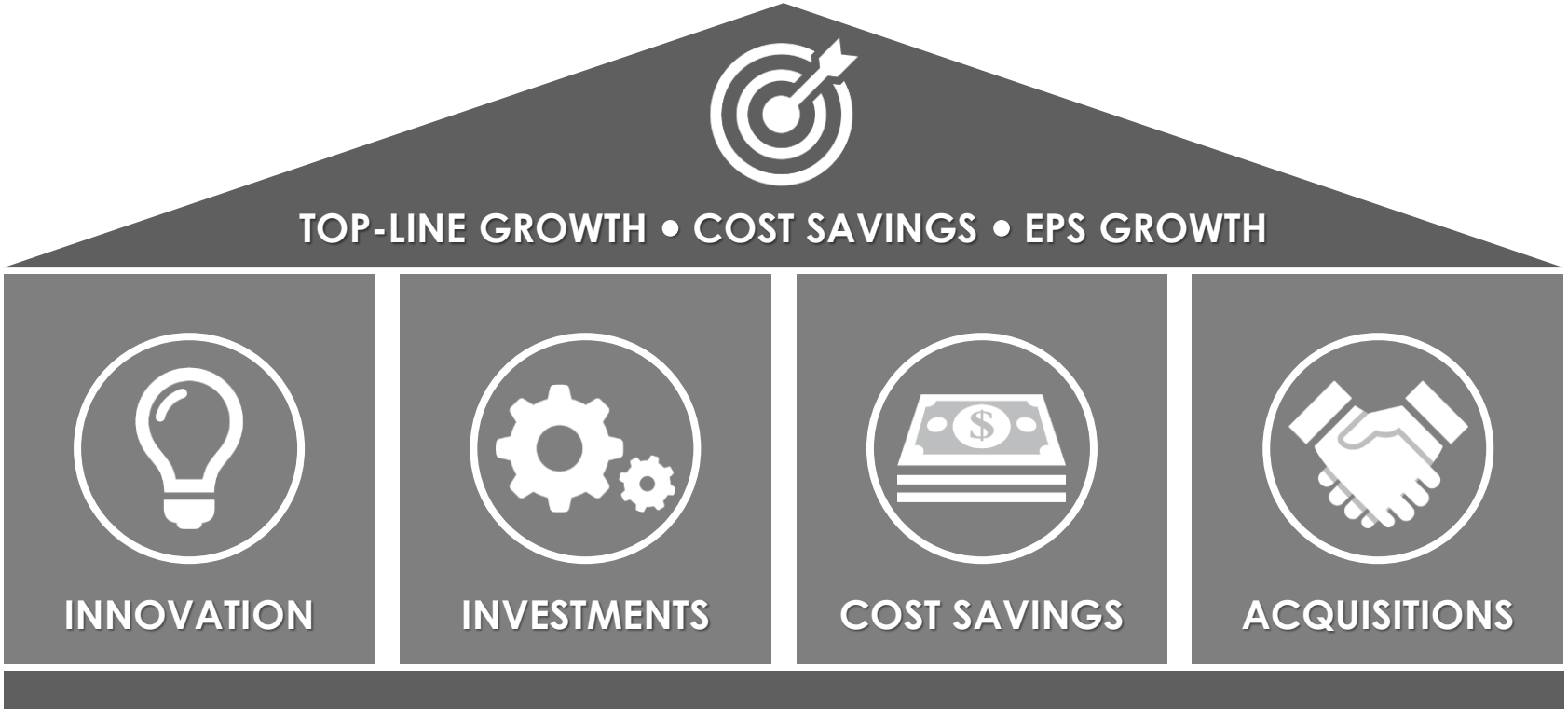
**$2B**

**IN NET SALES**

**EXPECTED 5-YR CAGR**

**+HSD**

# Strategic Roadmap



# Progress on Our Strategic Roadmap

- ACQUIRED AINSWORTH
- CREATED CENTERS OF EXCELLENCE
- DIVESTED U.S. BAKING BUSINESS
- ENHANCED K-CUP® PARTNERSHIP
- LAUNCHED 1850™ & *JIF*® POWER UPS™
- IMPLEMENTED ZERO-BASED BUDGETING
- INCREASED MARKETING INVESTMENT
- ACHIEVED $200M PET FOOD SYNERGIES
- EXPANDING MARKETING CAPABILITIES
- CONSOLIDATING PET OFFICES

# Strategy for Growth

**PET FOOD** **COFFEE** **SNACKS**

A portfolio that combines **LEADING BRANDS** with **EMERGING**, **ON-TREND BRANDS** to drive growth



# Ainsworth Acquisition




**$800M**
**PROJECTED FY19 NET SALES**

**+20%**
**YoY NET SALES**

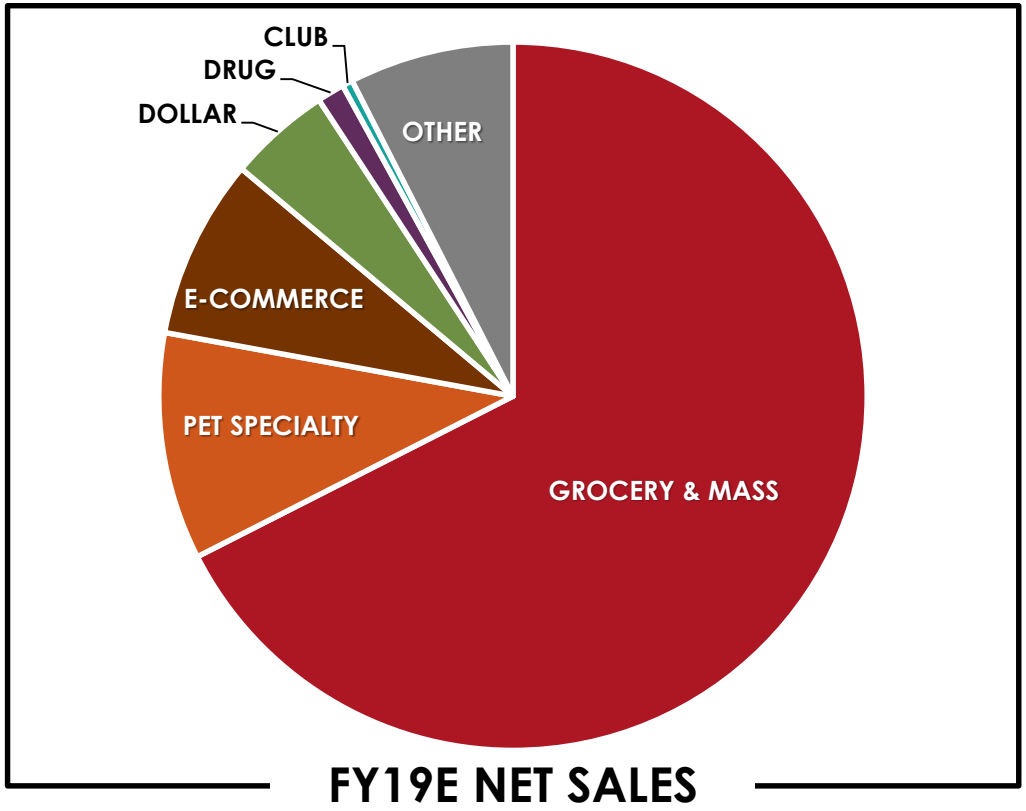
# Rachael Ray® Nutrish®




**$600M**
**PROJECTED FY19 NET SALES**

**+30%**
**YoY NET SALES**

# Ainsworth Sales by Channel

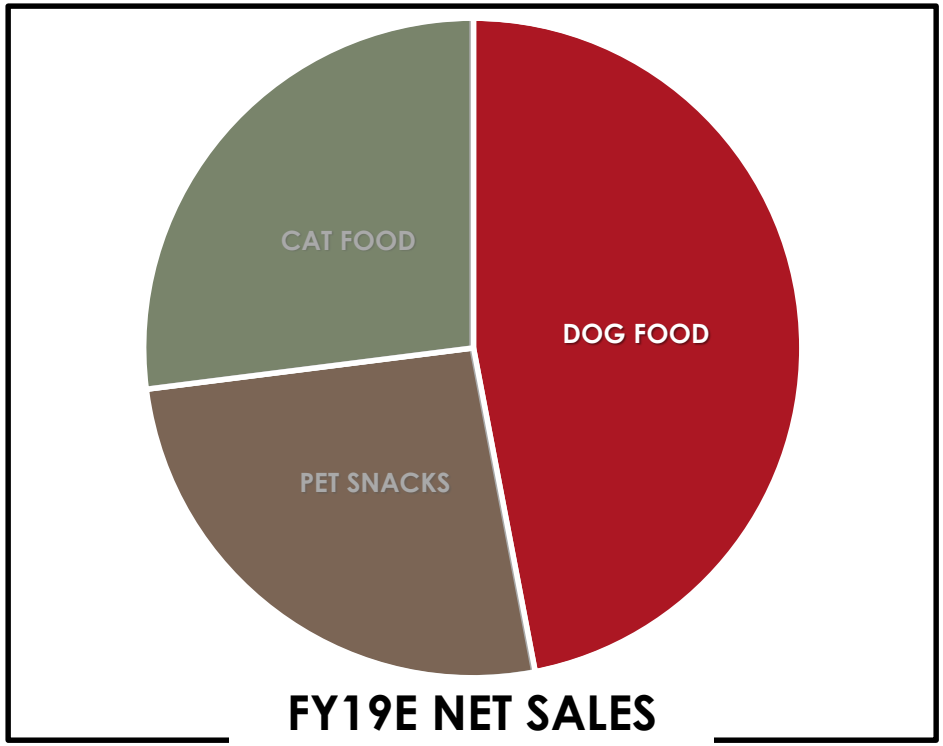


# Rachael Ray® Nutrish®




Capitalizing on pet parents' desire for an **AFFORDABLE**, **PREMIUM** option

# U.S. Retail Pet Foods Segment



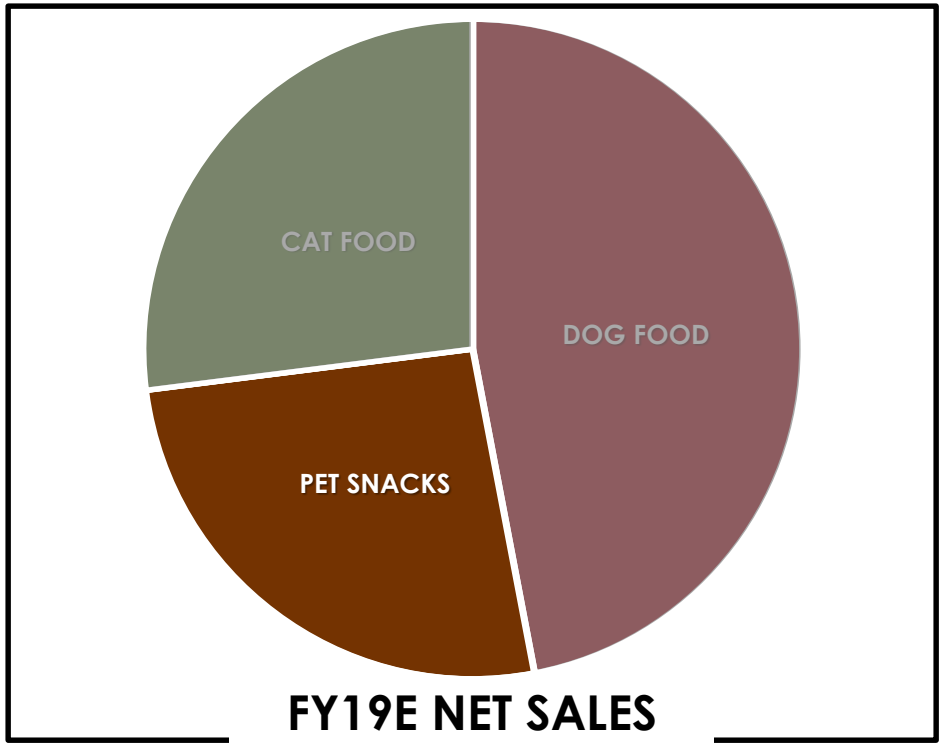

**FY19E NET SALES**
**$2.9B**

**DOG FOOD**

**65%**

**OF SALES ARE IN PREMIUM & SUPER-PREMIUM SEGMENTS**

# U.S. Retail Pet Foods Segment

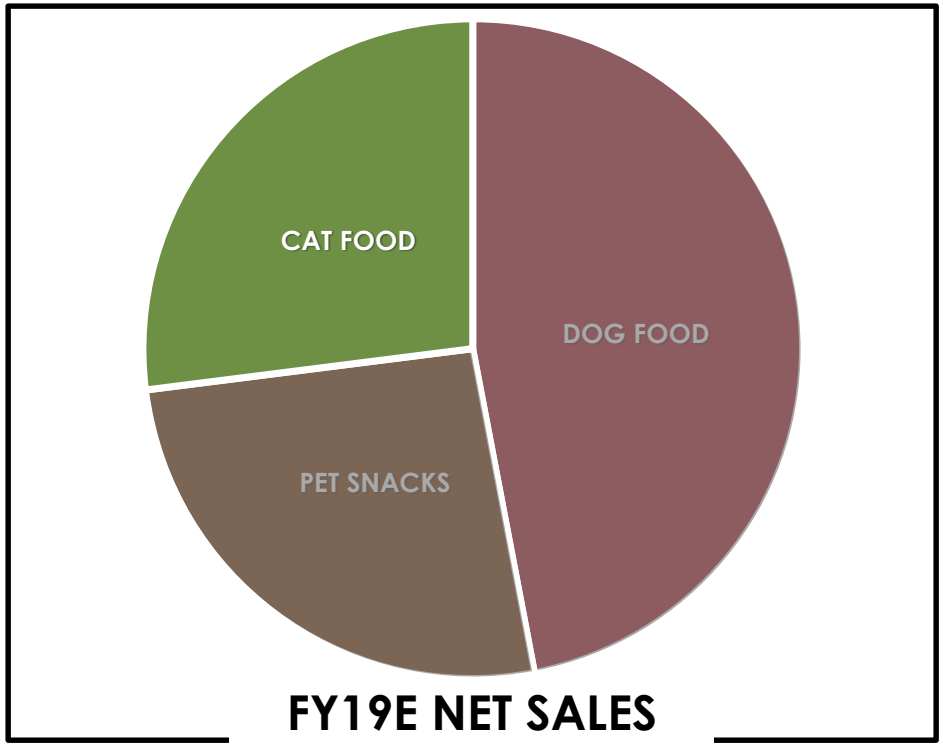



**FY19E NET SALES**
**$2.9B**

| PET SNACKS |
| --- |
| #1 IN CATEGORY<br>**23%**<br>MARKET SHARE |

*Source: Smucker Internal Multi-Outlet Share Report 52 weeks ended August 12, 2018.*

# U.S. Retail Pet Foods Segment




**FY19E NET SALES**
**$2.9B**

## CAT FOOD

**SIGNIFICANT GROWTH OPPORTUNITY IN THE PREMIUM CAT FOOD SEGMENT**

# U.S. Retail Pet Foods




**3-4%**
**ANTICIPATED TOP-LINE GROWTH**

**$55M**
**AINSWORTH ACQUISITION SYNERGIES**

# Strong Pet Food & Pet Snacks Business






RACHAEL RAY NUTRISH

NATURE'S RECIPE EVERY INGREDIENT COUNTS

DICK VAN PATTEN'S Natural Balance PET FOODS, INC.

Kibbles 'n Bits

GRAVY TRAIN

DAD'S From Local Family Farms

Pup-Peroni

Milo's Kitchen MADE IN THE USA

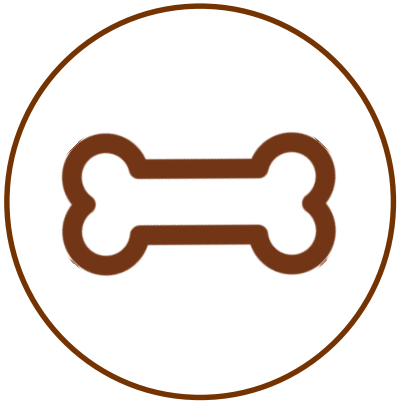
LOVED SINCE 1908 MILK-BONE

Canine Carry Outs

Meow Mix

CARING FOR CATS 9Lives SINCE 1959

# Aligning Our Portfolio for Growth



**PET FOOD**



**COFFEE**



**SNACKS**

Committed to allocating resources to areas critical to our **GROWTH**

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# Financial Update

Mark Belgya
Vice Chair and Chief Financial Officer

# First Quarter Fiscal 2019 Results

| ($ in millions, except per share data) | FY19 Q1 | YoY Increase |
|---|---|---|
| Net Sales | $1,903 | 9% |
| Adjusted Gross Profit | $700 | 8% |
| Adjusted Operating Income | $317 | 5% |
| Adjusted EPS | $1.78 | 18% |

Included $0.07/share unfavorable impact related to adjusting Ainsworth inventory to fair market value

# Full-Year Fiscal 2019 Outlook

| | Current | Previous[1] |
|---|---|---|
| Net Sales | $8.0B | $8.3B |
| Adjusted EPS | $8.40 - $8.65 | $8.40 - $8.65 |
| Free Cash Flow | $770M - $820M | $800M - $850M |
| Net Proceeds from Divestiture[2] | $315M | - |
| Capital Expenditures | $350M - $370M | $350M - $370M |
| Effective Tax Rate | 24.5% | 24.5% |

*(1) Previous outlook was as of June 7, 2018, and excluded potential impact of the divestiture of the U.S. baking business.*
*(2) Estimated net proceeds from U.S. baking business divestiture are net of transaction costs and taxes.*

# Fiscal 2019 Net Sales Guidance (Q2 – Q4)

- STRONG PERFORMANCE FROM KEY GROWTH BRANDS
- CONTRIBUTIONS FROM NEW PRODUCTS
- IMPROVED PERFORMANCE FOR *JIF*® AND *FOLGERS*®

**ORGANIC NET SALES GROWTH OF**

**1% - 2%**

**FOR THE LAST NINE MONTHS OF FY19**

# *Jif*® Peanut Butter

**EXPECT NET SALES GROWTH IN FY19**

**STRONG BACK TO SCHOOL MERCHANDISING**









# *Folgers*® Roast & Ground Coffee

**FY19 GREEN COFFEE FAVORABILITY**

**COMPETITIVE PRICING & MERCHANDISIG**









# Baking Divestiture Impact on Fiscal 2019 Adjusted EPS

| | |
|---|---|
| Forgone Profit | - |
| Gain on Sale | + |
| Reduced Interest Expense | + |
| TSA Income | + |
| **Impact on FY19 Adjusted EPS** | **Neutral** |

**MAINTAINED FY19 EPS GUIDANCE OF $8.40 - $8.65**

# Fiscal 2019 Adjusted Gross Margin Guidance (Q2-Q4)

- SEQUENTIAL IMPROVEMENT IN AINSWORTH PROFITABILITY
- BENEFIT OF FAVORABLE MIX
- GREEN COFFEE FAVORABILITY

**ADJUSTED GROSS MARGIN TO AVERAGE**

**39%**

**FOR THE LAST NINE MONTHS OF FY19**

# Baking Divestiture Impact on Fiscal 2020 Adjusted EPS

**NET IMPACT ON ADJUSTED EPS**

**$0.20**

**OPPORTUNITIES TO REDUCE IMPACT**

- SHARE REPURCHASES
- COST SAVINGS
- INNOVATION

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# Forward-Looking Statements

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# Non-GAAP Financial Measures

The Company uses non-GAAP financial measures, including: net sales excluding acquisition and foreign currency exchange; adjusted gross profit, operating income, income, and earnings per share; earnings before interest, taxes, depreciation, amortization, and impairment charges related to intangible assets ("EBITDA (as adjusted)"); and free cash flow, as key measures for purposes of evaluating performance internally. The Company believes that investors' understanding of its performance is enhanced by disclosing these performance measures. Furthermore, these non-GAAP financial measures are used by management in preparation of the annual budget and for the monthly analyses of its operating results. The Board of Directors also utilizes the adjusted earnings per share, adjusted operating income, and free cash flow measures as components for measuring performance for incentive compensation purposes.

Non-GAAP profit measures exclude certain items affecting comparability which include amortization expense and impairment charges related to intangible assets, integration and restructuring costs ("special project costs"), and unallocated gains and losses on commodity and foreign currency exchange derivatives ("unallocated derivative gains and losses"). The special project costs relate to specific integration and restructuring projects, and the unallocated derivative gains and losses reflect the changes in fair value of the Company's commodity and foreign currency exchange contracts.

These non-GAAP financial measures are not intended to replace the presentation of financial results in accordance with U.S. generally accepted accounting principles ("GAAP"). Rather, the presentation of these non-GAAP financial measures supplements other metrics used by management to internally evaluate its businesses and facilitates the comparison of past and present operations and liquidity. These non-GAAP financial measures may not be comparable to similar measures used by other companies and may exclude certain nondiscretionary expenses and cash payments. A reconciliation of certain non-GAAP financial measures to the comparable GAAP financial measure for the current and prior year periods is included in the "Non-GAAP Reconciliation" tables. The Company has also provided a reconciliation of non-GAAP financial measures for its fiscal 2019 outlook. As the amount of unallocated derivative gains and losses varies depending on market conditions and levels of derivative transactions with respect to a particular fiscal year, it is not determinable on a forward-looking basis and no guidance has been provided.

# Non-GAAP Reconciliation

| ($ in millions) | Three Months Ended July 31, | |
|---|---|---|
| | 2018 | 2017 |
| **Gross profit reconciliation:** | | |
| Gross profit | $ 678.2 | $ 662.1 |
| Unallocated derivative losses (gains) | 22.0 | (12.6) |
| Cost of products sold – special project costs | - | 0.7 |
| Adjusted gross profit | $ 700.2 | $ 650.2 |
| | | |
| **Operating income reconciliation:** | | |
| Operating income | $ 226.9 | $ 235.2 |
| Amortization | 60.5 | 51.5 |
| Unallocated derivative losses (gains) | 22.0 | (12.6) |
| Cost of products sold – special project costs | - | 0.7 |
| Other special project costs | 7.7 | 27.1 |
| Adjusted operating income | $ 317.1 | $ 301.9 |

# Non-GAAP Reconciliation

($ and shares in millions, except per share data)

| | Three Months Ended July 31, | |
|---|---|---|
| | 2018 | 2017 |
| **Net income reconciliation:** | | |
| Net income | $ 133.0 | $ 126.8 |
| Income tax expense (benefit) | 40.1 | 62.2 |
| Amortization | 60.5 | 51.5 |
| Unallocated derivative losses (gains) | 22.0 | (12.6) |
| Cost of products sold – special project costs | - | 0.7 |
| Other special project costs | 7.7 | 27.1 |
| Adjusted income before income taxes | $ 263.3 | $ 255.7 |
| Income taxes, as adjusted | 60.9 | 84.1 |
| Adjusted income | $ 202.4 | $ 171.6 |
| | | |
| Weighted-average common shares outstanding | 113.1 | 112.9 |
| Weighted-average participating shares outstanding | 0.6 | 0.6 |
| Total weighted-average shares outstanding | 113.7 | 113.5 |
| Dilutive effect of stock options | - | 0.1 |
| Total weighted-average shares outstanding – assuming dilution | 113.7 | 113.6 |
| | | |
| Adjusted earnings per share – assuming dilution | $ 1.78 | $ 1.51 |

# Non-GAAP Reconciliation

## Company Guidance

| ($ in millions, except per share data) | Year Ending April 30, 2019 | |
|---|---|---|
| | Low | High |
| **Net income per common share – assuming dilution reconciliation:** | | |
| Net income per common share – assuming dilution | $ 6.34 | $ 6.59 |
| Special project costs | 0.40 | 0.40 |
| Amortization | 1.66 | 1.66 |
| Adjusted earnings per share – assuming dilution | $ 8.40 | $ 8.65 |
| **Free cash flow reconciliation:** | | |
| Net cash provided by operating activities | $ 1,140 | $ 1,170 |
| Additions to property, plant, and equipment | (370) | (350) |
| Free cash flow | $ 770 | $ 820 |

# Additional Information

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